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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001151

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SUBJECT: DIRECTOR'S INITIAL CALL ON VICE PREMIER TSAI
ING-WEN

Classified By: AIT Director Stephen M. Young. Reasons: 1.4 (B/D)

11. (C) Summary: Vice Premier Tsai Ing-wen expressed concerns about Taiwan's democracy and economic situation with AIT Director Young during his initial courtesy call on March 28. She promised to work hard to address the concerns of business leaders with regard to overly bureaucratic travel regulations for PRC workers, but was less optimistic about speedy passage of the special defense procurement budget, blaming continued obstructionism on the Pan-Blue opposition. The Director told her that frustration about this and other issues threatened to erode support for Taiwan in Washington. End summary.

From Democracy to Good Governance

12. (C) AIT Director Young made his initial courtesy call on Vice Premier Tsai Ing-wen on March 28. The Director stated that Taiwan's next challenge, having succeeded in establishing a strong democracy, is to focus on issues of good governance. He said he was concerned that excessive political conflict and gridlock were becoming obstacles to that goal. As an example, he pointed to the continuing fighting over the special defense procurement budget, which he warned was leaving Taiwan vulnerable in the face of China's growing military modernization, while undermining support for Taiwan's defense among its best friends. He urged Tsai to build public support for greater defense spending, and promised his help in explaining its necessity to the public.

13. (C) Tsai responded that Taiwan is very divided about this issue and that reasonable discussion is difficult. She said much of the blame for this lies with Pan-Blue leaders, such as KMT Chairman Ma Ying-jeou and PFP Chairman James Soong, who use the issue to support other political objectives. She warned that Taiwan "still has some distance to travel" before it will be ready to pass the Special Budget. Tsai was pessimistic that Taiwan's political gridlock would diminish in the future, even if Ma were elected President in 2008.

Challenges to Taiwan's Economy

14. (C) Turning to the economy, the Director said he had met

that morning with the American Chamber of Commerce, whose members discussed some of their concerns. He encouraged Tsai to read their 2005 White Paper, which he said offers a downbeat assessment of Taiwan's economic situation. The Director emphasized that his own view of Taiwan's economy is more optimistic, based on his confidence in Taiwan's democracy and its investment in human capital. Tsai agreed to look at the paper, and asked about AmCham's concerns. The Director explained that one of the concerns of the business community is that regulations governing travel to Taiwan by PRC nationals for business and training purposes are too bureaucratic, often requiring months of advance planning. Business leaders want the flexibility to move specialized workers between plants in the PRC and on Taiwan to solve problems as they arise. They are also concerned about the difficulty of holding international conferences and trade shows in Taiwan, in light of these restrictions. Tsai responded that she had worked on solutions to these issues in her previous position as Chief of the Mainland Affairs Council, and she promised to meet with AmCham's business leaders to discuss how these concerns could be better addressed.

15. (C) The Director told Tsai he is concerned that Taiwan's debate about how to manage cross-Straits trade is distracting its leaders, particularly President Chen Shui-bian from the more important task of planning for Taiwan's future economic opportunities. He said that Chen should shift his focus to injecting health into the economy, rather than dealing with "theological issues" such as Taiwan's sovereignty and identity. Tsai said she shared the Director's concerns about Taiwan's future, but countered that the KMT would do a worse job managing the economy than the DPP. She characterized the KMT as lacking flexibility and being stuck in "the last

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century." She said the DPP is much quicker about responding to crises, even if these are, she admitted, sometimes of its own making. Tsai noted that Ma Ying-jeou, in his position as Taipei City Mayor, has not handled crises very well, but has managed to preserve his popularity only through his good fortune in not facing many crises in his term.

Don't Underestimate the Power of Democracy

16. (C) The Director reiterated his confidence in Taiwan, saying that it should not underestimate the power of its democracy. He suggested that Taiwan should shift its foreign policy focus toward promoting itself as a model for democratization to other countries, rather than making the priority its long-standing quest for official diplomatic relationships. He said that Taiwan should offer its experience in democracy to the people in the PRC, and need not allow the PRC to define the Cross-Straits relationship solely in terms of sovereignty. The Director suggested that a long-term process of change was occurring in China which could mean over time that Taiwan would be dealing with a more democratic system than currently exists in Beijing. He cited his recent experience in Kyrgyzstan, where the people's long-suppressed desire for a greater political voice led to one of the ousters of authoritarian leaders from the former Soviet Union known as the "color revolutions." Tsai agreed that there was no hurry to change the status quo, but insisted that Taiwan needs to ensure that its options for the future remain open and that its people be allowed to make those decisions for themselves.

17. (C) The Director noted that the guarantor for Taiwan's democracy is the U.S., but warned that support for Taiwan has been diminishing. He concluded that President Chen needs to do a better job of fencing off U.S. interests from his domestic politics, or he risks further eroding the pillar that supports Taiwan's democracy.

YOUNG